

North Dakota REV-E-NEWS



Pam Sharp, Director

October 2007

OFFICE OF MANAGEMENT AND BUDGET

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MESSAGE FROM THE DIRECTOR

The North Dakota economy is growing on many fronts, with low unemployment, a growing workforce, growing oil activity, high oil prices and agricultural prices, and increased consumer spending. All economic indicators give the same message – the state's economy is growing and expanding at a pace that exceeds all projections.

Growing Labor Force

Nationally, employment grew from August 2006 to August 2007 by 1.3 percent, as reported by the Federal Funds Information for States in a September 2007 issue of *State Policy Reports*. The rate of growth in the North Dakota job market was a full percentage point higher during that time – 2.3 percent. Only eight states in the nation ranked higher in the rate of growth in employment.

Growing Number of Young Workers

The North Dakota Census Committee reported in an October 9, 2007, news release that the number of young workers,

those under age 35, in the North Dakota work force has grown by more than 2,000 workers per year since 2004. Rod Backman, Chairman of the Census Committee was quoted in the news release: "This is good news reflecting North Dakota's strong economic growth over the past few years."

High Agricultural Prices

As reported by Moody's Economy.com in the October 2007 *Precis* publication, second quarter 2007 crop prices averaged 16.1 percent higher than last year and livestock prices averaged 25.4 percent higher. Calendar year 2007 farm prices are anticipated to increase close to 20.0 percent for the year, and another 8.0 percent in 2008.

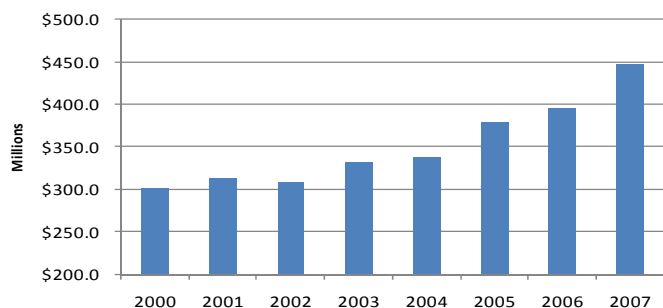
Continued Low Unemployment

In August 2007, the national unemployment rate was 4.6 percent, compared to North Dakota's 3.2 percent. North Dakota had the 8th lowest unemployment rate in the nation (September 2007 *State Policy Reports*).

Continued Sales Tax Growth

Although only three months into the 2007-09 biennium, sales and use taxes are outpacing the forecast by a significant margin. September collections exceeded the forecast by \$5.1 million, or 19.1 percent. Biennium to date collections exceed the forecast by over 13.0 percent. Compared to the previous biennium, collections have grown by 16.1 percent. From fiscal year 2000 to 2007, sales and use tax collections in North Dakota have grown by \$147.0 million, an increase of nearly 50.0 percent, as shown on the chart.

General Fund Sales and Use Taxes



OIL ACTIVITY

The price of North Dakota crude continues well above the forecasted price. June prices averaged \$61 per barrel, July prices \$68 per barrel, and August prices \$65 per barrel. The current price is over \$74 per barrel. Production continues to grow and increased in August to nearly 125,000 barrels per day. July production averaged over 123,600 barrels per day. June production averaged over 121,600 barrels per day. Drilling permit activity increased in August with 56 permits being issued, compared to 47 permits in July and 31 in June. The number of producing wells increased slightly in August to 3,767 compared to 3,759 in July and 3,735 in June. The current rig count is 50 rigs, 10 more than were operating in the state one year ago.



Comments or Questions?

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STATEMENT OF GENERAL FUND REVENUES AND FORECASTS
Compared to the Legislative Forecast
2007-09 BIENNIUM
September 2007

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	April 2007 <u>Leg. Forecast</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>	April 2007 <u>Leg. Forecast</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>
Sales Tax	26,880,000	32,016,445	5,136,445	19.1%	98,723,000	112,175,242	13,452,242	13.6%
Motor Vehicle Excise Tax	5,357,000	4,999,001	(357,999)	-6.7%	15,236,000	16,507,513	1,271,513	8.3%
Individual Income Tax	9,139,000	9,670,646	531,646	5.8%	53,425,000	57,965,230	4,540,230	8.5%
Corporate Income Tax		130,622	130,622	100.0%		1,374,209	1,374,209	100.0%
Insurance Premium Tax	717,517	691,648	(25,869)	-3.6%	4,576,894	4,074,224	(502,670)	-11.0%
Financial Institutions Tax		277,605	277,605	100.0%		284,540	284,540	100.0%
Oil & Gas Production Tax	4,510,000	7,852,972	3,342,972	74.1%	14,889,000	24,294,300	9,405,300	63.2%
Oil Extraction Tax	4,812,000	7,338,903	2,526,903	52.5%	12,846,000	19,042,463	6,196,463	48.2%
Gaming Tax	31,360	77,532	46,172	147.2%	2,138,080	1,960,753	(177,327)	-8.3%
Lottery								
Cigarette & Tobacco Tax	2,206,000	2,154,805	(51,195)	-2.3%	6,533,000	6,128,722	(404,278)	-6.2%
Wholesale Liquor Tax	535,000	564,197	29,197	5.5%	1,672,000	1,821,089	149,089	8.9%
Coal Conversion Tax	2,105,000	2,217,700	112,700	5.4%	6,413,000	6,492,913	79,913	1.2%
Mineral Leasing Fees	(550,000)	(694,489)	(144,489)	26.3%	1,650,000	905,960	(744,040)	-45.1%
Departmental Collections	3,046,000	5,062,651	2,016,651	66.2%	6,001,000	7,549,108	1,548,108	25.8%
Interest Income	1,375,000	2,435,452	1,060,452	77.1%	3,335,000	5,055,575	1,720,575	51.6%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Oil tax trust fund-Transfer								
Other Transfers		1,198	1,198	100.0%	159,257	191,456	32,199	20.2%
Total Revenues and Transfers	60,163,877	74,796,887	14,633,010	24.3%	227,597,231	265,823,298	38,226,067	16.8%

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS
Compared to the Previous Biennium Revenues
2007-09 BIENNIUM
September 2007

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	September 2005	September 2007	Variance	Percent	2005-07	2007-09	Variance	Percent
Sales Tax	31,107,326	32,016,445	909,119	2.9%	96,645,876	112,175,242	15,529,365	16.1%
Motor Vehicle Excise Tax	5,373,922	4,999,001	(374,921)	-7.0%	17,527,101	16,507,513	(1,019,588)	-5.8%
Individual Income Tax	12,601,569	9,670,646	(2,930,922)	-23.3%	53,924,623	57,965,230	4,040,607	7.5%
Corporate Income Tax	6,870,232	130,622	(6,739,610)	-98.1%	7,173,216	1,374,209	(5,799,007)	-80.8%
Insurance Premium Tax	305,601	691,648	386,047	126.3%	2,325,186	4,074,224	1,749,039	75.2%
Financial Institutions Tax	13,714	277,605	263,891	1924.2%	15,150	284,540	269,390	1778.2%
Oil & Gas Production Tax	4,968,115	7,852,972	2,884,857	58.1%	14,674,862	24,294,300	9,619,438	65.6%
Oil Extraction Tax	2,337,759	7,338,903	5,001,144	213.9%	8,403,942	19,042,463	10,638,521	126.6%
Gaming Tax	177,443	77,532	(99,912)	-56.3%	2,374,923	1,960,753	(414,170)	-17.4%
Lottery								
Cigarette & Tobacco Tax	2,171,899	2,154,805	(17,093)	-0.8%	5,775,776	6,128,722	352,946	6.1%
Wholesale Liquor Tax	566,540	564,197	(2,343)	-0.4%	1,731,825	1,821,089	89,265	5.2%
Coal Conversion Tax	2,201,810	2,217,700	15,890	0.7%	6,360,062	6,492,913	132,850	2.1%
Mineral Leasing Fees	(1,010,776)	(694,489)	316,287	-31.3%	715,873	905,960	190,087	26.6%
Departmental Collections	1,196,829	5,062,651	3,865,822	323.0%	3,542,485	7,549,108	4,006,623	113.1%
Interest Income	667,995	2,435,452	1,767,457	264.6%	1,534,083	5,055,575	3,521,492	229.6%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Oil Tax Trust Fund-Transfer	30,000,000		(30,000,000)	-100.0%	30,000,000		(30,000,000)	-100.0%
Other Transfers		1,198	1,198	100.0%	249,930	191,456	(58,474)	-23.4%
Total Revenues and Transfers	99,549,979	74,796,887	(24,753,092)	-24.9%	252,974,913	265,823,298	12,848,385	5.1%

VARIANCES

September revenues were \$14.6 million, or 24.3 percent, higher than projected. However, it should be noted that \$5.8 million of this variance is attributable to oil taxes. Pursuant to NDCC 57-51.1-07.2, the general fund share of oil taxes is limited to \$71.0 million during the 2007-09 biennium. Consequently, excess oil taxes, which total \$5.8 million for the month and \$15.6 million for the biennium, only accelerate the time frame during which the general fund cap will be reached. The result will be additional deposits into the permanent oil tax trust fund, the fund established to receive oil tax collections in excess of \$71.0 million. Notable variances for the month are as follows:

- **Sales tax** collections exceeded the forecast by \$5.1 million, or 19.1 percent. Compared to the same month two years ago, September 2007 collections were 2.9 percent higher.
- **Motor vehicle excise tax** collections fell short of projections by nearly \$360,000. Collections for the biennium to date exceed the forecast by \$1.3 million, but have declined by over \$1.0 million compared to the same time period during the 2005-07 biennium. This decline in sales volume is likely attributable to high fuel prices and consumer demand for smaller, more fuel efficient vehicles, many of which are lower priced.
- **Individual income tax** collections exceeded the forecast by over \$500,000 for the month and \$4.5 million for the biennium. Collections deposited in the general fund were \$2.9 million less than during September 2005; however, during September 2007, \$7.0 million was deposited by the Tax Department into the refund reserve account to allow for additional refunds anticipated as a result of the property tax relief provisions of 2007 Senate Bill No. 2032.
- **Corporate income tax** collections exceeded the forecast by \$130,000. The forecast showed anticipated general fund collections of \$0 due to the fact that collections during the first three months of the biennium are typically deposited into the refund reserve account rather than the general fund. However, because actual collections were higher than anticipated, excess collections were deposited in the general fund.
- **Oil and gas tax** collections for the month were \$15.2 million, \$5.8 million more than anticipated. The forecast assumed an August 2007 price of \$47 per barrel and production of 115,000 barrels per day. The current price is over \$74 per barrel and August production averaged over 124,600 barrels per day.
- **Departmental collections** exceeded the forecast by \$2.0 million, primarily a result of higher than anticipated transfers from the insurance regulatory trust fund to the general fund pursuant to NDCC Section 26.1-01-07.1.

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